

Rx for Top ROEs: Fees and/or Cheap Funding

By SANFORD ROSE

The most profitable bank holding companies in 1989 were those whose fortunes did not depend quite so much on lending money, according to data just released by the First Manhattan Consulting Group. The data show that banks pursuing a fee-based strategy and those whose prosperity rests primarily on sourcing cheap deposits earned higher and, in the case of the fee-based banks, appreciably higher median returns on equity than did the other types of institutions.

The New York-based consulting firm classifies banking companies by business mix rather than by size or location. Its analysis divides the largest 250 bank holding companies for which data are available into six distinct types of entities: fee-based banks, commercial financiers (middle-market commercial and real estate lenders), consumer intermediators, low-cost funders, money-center banks, and a residual category of undifferentiated intermediaries—that is, banks with no discernible balance-sheet or income specialty.

First Manhattan Consulting calculates an adjusted return on equity for each bank and for each peer group. The adjustments are for nonrecurring income and expenses as well as for differences in leverage. In other words, a bank's return is what it would have made without extraordinary items and if its ratio of average common equity to assets had been the same as the 1989 average of the top 250 holding companies.

Widening the Margin

Last year the fee-based banks outstripped all other peer groups, registering an adjusted median return on equity of 17.5%. That was 140 basis points higher than the second-ranked group of banks. Although the fee-based banks have been at or near the top in adjusted ROE for much of the last five years, their margin of superiority over the other peer groups was never greater than in 1989.

The place horse in the 1989 ROE derby was the low-cost funding group, which garnered a median ROE of 16.1%. The rise of this category of banks from a fourth-place finish in 1988 and 1987 to the second slot last year is symptomatic of the unquiet times.

As their name implies, the low-cost funders have access to

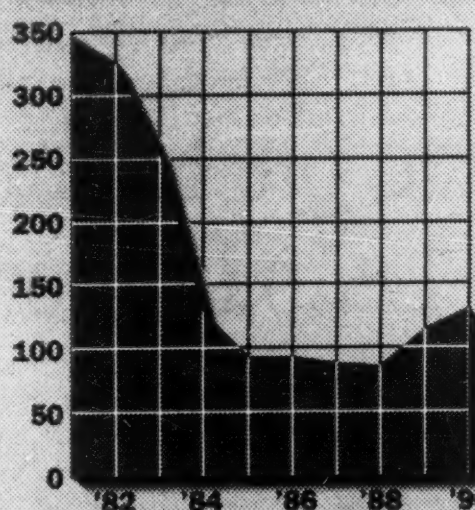
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INSIDE NEWS

CONSUMER

Uptick Reported in Credit Union Failures

Involuntary liquidations and assisted mergers at federally insured institutions



Source: National Credit Union Administration

FAILURES of federally insured credit unions are climbing, though not to the high levels of the early 1980s. Page 6

SHARP INCREASES in bankruptcy filings by individuals have spurred some banks to tighten procedures for spotting credit risk. Page 6

RTC

ENSIGN BANK, the \$1.78 billion-asset New York thrift controlled by cruise-line magnate Ted Arison, was seized Friday by federal regulators. Page 2

FINANCE

THE RTC has initiated foreclosure proceedings against Port Liberte in Jersey City, one of the most ambitious luxury housing projects ever begun in the New York metropolitan region. Page 20

INTERNATIONAL

IBCA LTD., the London-based bank credit rating agency, has been waiting more than two years for SEC accreditation and appears to be as far away as ever. Page 12

REAL ESTATE

STRICT LIMITS on downtown development—limits that banks and developers denounced in the 1980s—have turned out to be their best friends. Page 8

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Tisch Family Buys Big Stakes In Three Banks

By KELLEY HOLLAND

While most investors are shunning bank stocks, a group representing the Tisch family has invested more than \$65 million dollars in equity of three banks battered by the recent rout.

The investment group, FLF Associates, and members of the Tisch family now own 9.5% of the equity of BayBanks Inc., 6.8% of Equimark Corp., and 5.6% of Continental Bank Corp. All the stakes were bought in July and August.

Earlier Stake

The holdings are in addition to an 8.9% stake held by members of the Tisch family in Bank of Boston Corp.

The investment in the banks surprised a number of bank analysts.

Thomas K. Brown, an analyst at PaineWebber Inc., said, "With all due respect to a good investor, I don't know why you wouldn't put that amount of money into a few higher quality companies, with bank stocks being down as much as they are now."

"Instead, they've doubled their exposure in New England, and specifically in Massachusetts, at a time when it's going to

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BNE Shares Bounce Back On Denial by Regulator

By TOM LEANDER
and ROBERT TRIGAUD

The stock of Bank of New England Corp. rebounded sharply on Friday following public assurances from federal regulators that none of the company's subsidiary banks were facing immediate seizure.

The Boston-based company's stock closed at \$2.125, up \$1.125, in extremely heavy trading on the New York Stock Exchange. More than 2.6 million shares changed hands, twice as many as on Thursday, when rumors of an imminent seizure flashed across financial markets.

That made it the most active bank stock Friday by a wide margin and the second most active issue on the exchange, behind only the Ohio Edison Co. The bank company's normal daily volume is about 225,000 shares.

Candidate Fueled Rumors

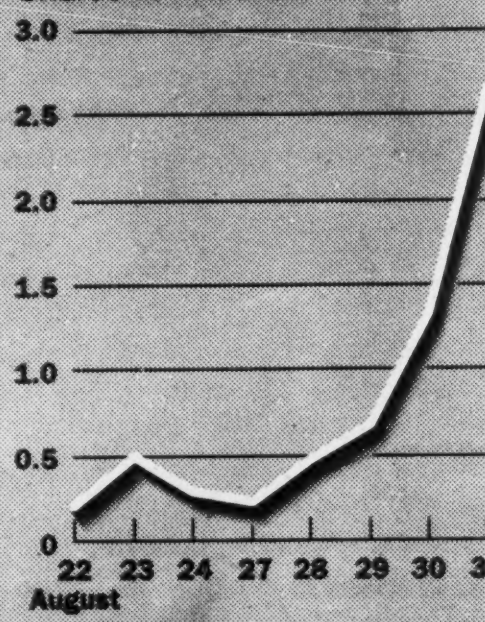
The rumors, which had started early last week, were fueled on Thursday when a congressional candidate from Massachusetts released a statement saying that the Federal Deposit Insurance Corp. had recommended the closing of the bank.

That prompted a categorical denial from regulators and Lawrence K. Fish, chairman of the banking company.

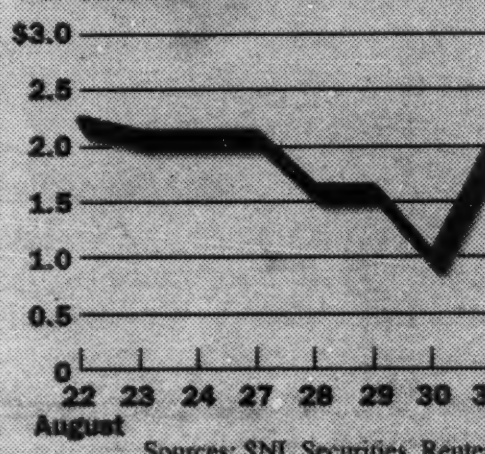
Bank of New England officials

Rumors Jolt Stock of Bank of New England

Volume soars...
Shares in millions



And price dips, rebounds



said that there were no unusual deposit withdrawals on Friday and that the bank was operating as normal.

The company's stock had fallen

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Check Law Still Spurring Debate

By KAREN GULLO

NEW YORK—Bankers and the Federal Reserve Board plan to continue seeking changes in the law that shortens check holds, even though the final schedule takes effect today.

Proposals that would give banks more time to make funds available remain alive in Congress, and their proponents are optimistic that some action will be taken this year.

Regulation CC, which implemented the Expedited Funds Availability Act of 1987, remains a topic of debate, said a Fed staff member.

"We've persuaded enough people in Washington that there is a problem in the law and that unless it's changed, we'll have a big fraud problem," he said.

Bankers contend that the rapid availability of funds raises their risk of fraud because they

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Big Banks Face Higher Tax Bills In Remote States

By KENNETH CLINE

A growing movement by states to tax financial institutions outside their borders could result in higher tax bills for money-center and superregional banks, industry experts warn.

Minnesota, Indiana, and Tennessee have already passed bills that tax banks selling credit card and other products to residents in those states but not chartered there. Several more states are considering the so-called market-state approach, including California, Massachusetts, Nevada, and Arizona.

ABA Seeks Moratorium

"The magnitude of the problem is just beginning to be perceived," said Henry Ruempler, director of taxation and accounting for the American Bankers Association. The trade group recently called on states to adopt a two-year moratorium on enacting or collecting market-state taxes on financial institutions.

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The Five Largest Gains in Market Capitalization

Among the 100 banks with the largest market values (See story on page 18)

	Market capitalization (dollars in millions)		Percent increase	Rank
	8/30	3/31		
Republic New York	\$1,697	\$1,401	21.1%	26
First Interstate	2,467	2,039	21	13
Norwest	2,232	1,859	20.1	17
Valley National	320	272	17.6	90
Bancorp Hawaii	845	728	16	42

The Five Largest Losses in Market Capitalization

	Market capitalization (dollars in millions)		Percent decrease	Rank
	8/30	3/31		
Southeast Banking	\$317	479	33.9%	91
MNC Financial	1,084	1,569	31	34
First American	308	408	24.5	92
PNC Financial	2,839	3,753	24.4	10
Dominion Bankshares	547	718	23.8	65

Source: American Banker

FINANCE

CAPITAL

Big Banks' Market Value Stable in 2d Quarter

By KELLEY HOLLAND

This year has been one of the toughest in memory for banks, but by the measurement of market capitalization, bankers at the nation's 50 largest banks at least got a little bit of short-lived good news in the second quarter.

Those banks saw an increase of 0.1% in their market capitalization. The figures obviously do not include the significant drop in bank stocks in the last two months.

The growth in market capitalization — the price of a company's stock multiplied by the number of shares it has outstanding — indicates investors are willing to pay up for a bank's assets. A large market capitalization also makes acquisitions easier.

Gain Considered Misleading

But even this smattering of good news may not be for real. The increase in market capitalization between March 31 and June 30 was a fluke, analysts said.

"The most important thing was that the stocks had a tremendous but very short-lived rally right around the end of

May," said Katherine R. Hensel, an analyst at Lehman Brothers Inc. In addition, "right at the end of the second quarter was when we had a real change in sentiment for interest rates."

Moreover, the increase in market cap from the beginning to the end of the quarter is misleading, Ms. Hensel said. The springtime spike in prices was brief, so comparing an average of daily closing prices for bank stocks in the second quarter to the same statistic for the first quarter would show a decline.

Larger Group Declined

Moreover, the market capitalization of a broader cross section of banks — the top 100 — declined an average of 1.1%. And bank stock prices have fallen sharply in the third quarter.

Investors began to differentiate more between strong and weak banks, according to John D. Crumrine, treasurer of Norwest Corp.

"In the first quarter, investors seemed to be negative on all banks," he said. In the second quarter, though, "there were increasing distinctions made between banks who are weathering

the storm here and those who are having more trouble."

A combination of a more bullish interest rate outlook, a broad market rally, and banks' ability to increase their market capitalization through dividend reinvestment programs also bolstered many banks' market capitalization between March 31 and June 30, analysts said.

Republic on Top

The winner in the market capitalization sweepstakes for the second quarter was Republic New York Corp. Republic has long been highly regarded by analysts and bankers alike, and that high regard has been reflected in Republic's stock price.

Republic's stock price rose only 5.66% in the second quarter. But because the New York-based bank issued new stock to finance its acquisition of a savings bank, increasing its outstanding shares by 4.2 million, Republic's market capitalization increased 21.1%.

First Interstate Bancorp's market capitalization grew 21% during the second quarter, the second-highest rise. The Los Angeles-based bank issued new

10 Top M.Cap./Assets Ratios

	June 30 1990	March 31 1990	M.Cap. June 30 (\$ Million)	M.Cap. Rank
1 Synovus Financial Corp.	21.8%	24.3%	\$599	61
2 Wilmington Trust Co.	20.0	19.1	723	47
3 Fifth Third Bancorp	17.0	18.9	1,245	30
4 Banc One Corp.	16.3	15.1	4,543	4
5 Valley National Bancorp	15.4	17.1	285	100

10 Lowest M.Cap./Assets Ratios

	June 30 1990	March 31 1990	M.Cap. June 30 (\$ Million)	M.Cap. Rank
1 Southeast Banking Corp.	2.0%	2.8%	\$317	91
2 Midlantic Corp.	2.3	2.7	552	64
3 Bank of Boston Corp.	2.4	2.8	900	39
4 Continental Bank Corp.	2.6	2.8	758	45
5 Chase Manhattan Corp.	3.0	3.3	3,025	9

common stock late in the first quarter, which pushed its stock price down to just \$34 per share as the second quarter began, making the change to the end-of-quarter price of \$40.375 per share more impressive.

New Shares Issued

But the increase in market capitalization was also helped by First Interstate's issuance of new shares during the second quarter through its dividend reinvestment program. The bank "has had a pretty heavy DRIP program," said Donald K. Crowley, an executive vice president at Keefe, Bruyette & Woods.

Norwest's market capitaliza-

tion also increased smartly, rising 20.1%. Norwest issued new shares during the quarter to finance its acquisition of First Interstate of Wisconsin, and its stock price also rose 9%, to \$21.75.

"Absent a really severe national recession, I really don't think we're going to see a really severe change in the upper Midwest," said Ben B. Crabtree, an analyst at Minneapolis-based Dain Bosworth Inc.

Southeast Is Weak

Banks in the Southeast dominated the list of banks logging

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MARKET CAPITALIZATION

Top 100 Banking Companies in Market Capitalization

Listed in order of the market value of their common stock on June 30, 1990 (dollar amounts in millions)

Rank 6/90	Rank 3/90	Company	M.Cap. 6/30/90	Assets 6/30/90	M.Cap. vs 1Q	M.Cap./ Assets
1	1	Citicorp, New York	7,450	227,752	(1.0)%	3.3
2	2	J.P. Morgan & Co. Inc., New York	6,617	93,103	(1.4)	7.1
3	3	BankAmerica Corp., San Francisco	6,301	103,960	5.9	6.1
4	5	Banc One Corp., Columbus, Ohio	4,543	27,921	10.7	16.3
5	4	Security Pacific Corp., Los Angeles	4,362	94,510	(2.7)	4.6
6	8	Wells Fargo & Co., San Francisco	4,056	51,713	14.3	7.8
7	6	NCNB Corp., Charlotte, N.C.	3,819	66,188	(2.9)	5.8
8	10	Bankers Trust New York Corp.	3,412	57,341	12.3	6.0
9	9	Chase Manhattan Corp., New York	3,025	102,371	(13.1)	3.0
10	7	PNC Financial Corp., Pittsburgh	2,839	47,823	(24.4)	5.9
11	11	First Wachovia Corp., Winston-Salem, N.C.	2,826	24,280	2.6	11.6
12	12	SunTrust Banks Inc., Atlanta	2,564	31,257	(4.9)	8.2
13	21	First Interstate Bancorp., Los Angeles	2,467	55,082	21.0	4.5
14	15	Manufacturers Hanover Corp., New York	2,464	63,548	7.6	3.9
15	16	NBD Bancorp Inc., Detroit	2,338	26,646	4.7	8.8
16	20	Chemical Banking Corp., New York	2,313	75,216	13.0	3.1
17	25	Norwest Corp., Minneapolis	2,232	26,770	20.1	8.3
18	14	Bank of New York Co., Inc.	2,206	48,953	(5.5)	4.5
19	17	CoreStates Financial Corp., Philadelphia	2,190	22,765	3.0	9.6
20	19	National City Corp., Cleveland	2,180	23,092	4.4	9.4
21	13	Fleet/Norstar Financial Group Inc., Providence	2,117	34,120	(11.2)	6.2
22	24	Barnett Banks Inc., Jacksonville, Fla.	2,033	31,128	8.2	6.5
23	23	First Union Corp., Charlotte, N.C.	2,023	38,385	5.6	5.3
24	22	First Chicago Corp.	1,928	50,361	(2.8)	3.8
25	18	Sovran Financial Corp., Norfolk, Va.	1,733	26,068	(17.1)	6.7
26	28	Republic New York Corp.	1,697	29,199	21.1	5.8
27	30	State Street Boston Corp.	1,473	10,306	8.4	14.3
28	26	Citizens and Southern Corp., Atlanta	1,417	24,259	(13.5)	5.8
29	29	U.S. Bancorp, Portland, Ore.	1,389	17,748	1.0	7.8
30	31	Fifth Third Bancorp, Cincinnati	1,245	7,344	(6.5)	17.0
31	39	KeyCorp, Albany, N.Y.	1,162	16,006	14.6	7.3
32	33	Mellon Bank Corp., Pittsburgh	1,145	31,670	1.2	3.6
33	34	Boatmen's Bancshares Inc., St. Louis	1,140	15,044	7.0	7.6
34	27	MNC Financial Inc., Baltimore	1,084	27,539	(31.0)	3.9
35	32	First Fidelity Bancorp., Lawrenceville, N.J.	1,080	29,848	(9.8)	3.6
36	36	Society Corp., Cleveland	1,069	15,566	0.9	6.9
37	35	Northern Trust Corp., Chicago	1,044	11,737	(2.1)	8.9
38	41	First Bank System Inc., Minneapolis	912	19,425	7.2	4.7
39	37	Bank of Boston Corp.	900	37,297	(13.8)	2.4
40	38	Shawmut National Corp., Boston	889	26,577	(14.8)	3.3
41	40	Huntington Bancshares Inc., Columbus, Ohio	884	11,684	(3.4)	7.6
42	48	Bancorp Hawaii Inc., Honolulu	845	8,972	16.0	9.4
43	44	First of America Bank Corp., Kalamazoo, Mich.	832	12,966	7.1	6.4
44	45	Comerica Inc., Detroit	768	12,214	(0.5)	6.3
45	43	Continental Bank Corp., Chicago	758	29,532	(8.3)	2.6
46	51	UJB Financial Corp., Princeton, N.J.	725	13,281	0.7	5.5
47	56	Wilmington Trust Co., Del.	723	3,622	6.3	20.0
48	42	Crestar Financial Corp., Richmond	717	12,216	(14.4)	5.9
49	46	Union Bank, San Francisco	707	15,960	(8.2)	4.4
50	50	Marshall & Ilsley Corp., Milwaukee	700	7,067	(3.1)	9.9
TOTALS FOR THE TOP 50 ¹ (\$ Billion)			105.3	1,897.4	0.1	5.55
51	53	Ameritrust Corp., Cleveland	677	11,097	(4.6)%	6.1
52	64	First Hawaiian Inc., Honolulu	673	5,534	12.4	12.2
53	55	Old Kent Financial Corp., Grand Rapids, Mich.	659	8,098	(3.3)	8.1
54	47	Manufacturers National Corp., Detroit	655	11,205	(10.5)	5.9
55	57	Firstar Corp., Milwaukee	649	8,534	(2.5)	7.6
56	54	Meridian Bancorp Inc., Reading, Pa.	643	11,771	(5.8)	5.5
57	67	Star Banc Corp., Cincinnati	639	6,058	15.7	10.6
58	61	Mercantile Bankshares Corp., Baltimore	619	4,317	(1.6)	14.3
59	49	City National Corp., Beverly Hills	609	4,885	(17.2)	12.5
60	58	Signet Banking Corp., Richmond	606	12,655	(8.1)	4.8
61	59	Synovus Financial Corp., Columbus, Ga.	599	2,754	(5.3)	21.8
62	70	First Alabama Bancshares Inc., Montgomery	574	5,363	12.0	10.7
63	65	First Virginia Banks Inc., Falls Church	555	5,211	(5.9)	10.7
64	60	Midlantic Corp., Edison, N.J.	552	24,231	(12.1)	2.3
65	52	Dominion Bankshares Corp., Roanoke, Va.	547	10,323	(23.8)	5.3
66	63	Integra Financial Corp., Pittsburgh	537	7,619	(11.8)	7.1
67	69	AmSouth Bancorp., Birmingham, Ala.	515	8,516	(3.3)	6.1
68	68	SouthTrust Corp., Birmingham, Ala.	479	8,260	(11.8)	5.8
69	62	First City Bancorp. of Texas, Houston	478	13,897	(23.3)	3.4
70	66	Michigan National Corp., Farmington Hills	468	11,632	(18.9)	4.0
71	74	Commerce Bancshares Inc., Kansas City, Mo.	459	6,075	(0.8)	7.6
72	78	Central Fidelity Banks Inc., Richmond	455	5,707	4.7	8.0
73	71	Fourth Financial Corp., Wichita, Kan.	449	4,151	(7.4)	10.8
74	72	INB Financial Corp., Indianapolis	439	5,988	(8.9)	7.3
75	79	First Empire State Corp., Buffalo, N.Y.	412	6,569	(4.9)	6.3
76	77	First Security Corp., Salt Lake City	405	6,335	(9.0)	6.4
77	75	Hibernia Corp., New Orleans	401	7,366	(11.6)	5.5
78	80	Mercantile Bancorp. Inc., St. Louis	398	6,861	(8.1)	5.8
79	82	Dauphin Deposit Corp., Harrisburg, Pa.	394	3,325	(2.9)	11.9
80	76	South Carolina National Corp., Columbia	393	6,428	(12.5)	6.1
81	83	Banco Popular de Puerto Rico, San Juan	381	6,022	(3.7)	6.3
82	89	Puget Sound Bancorp., Tacoma, Wash.	372	4,425	7.3	8.4
83	87	United Missouri Bancshares, Inc., Kansas City	366	4,151	(2.5)	8.8
84	84	BB&T Financial Corp., Wilson, N.C.	365	4,779	(7.1)	7.6
85	90	Merchants National Corp., Indianapolis	364	5,738	7.6	6.3
86	85	First Tennessee National Corp., Memphis	347	6,430	(9.3)	5.4
87	93	U.S. Trust Corp., New York	340	2,877	4.2	11.8
88	86	First Florida Banks, Inc., Tampa	335	5,546	(11.4)	6.1
89	94	First Bancorp. of Ohio, Akron	325	3,349	1.4	9.7
90	...	Valley National Corp., Phoenix	320	10,430	17.6	3.1
91	73	Southeast Banking Corp., Miami	317	15,833	(33.9)	2.0
92	81	First American Corp., Nashville, Tenn.	308	7,081	(24.5)	4.4
93	88	Bank South Corp., Atlanta	302	5,514	(19.5)	5.5
94	...	West One Bancorp., Boise, Idaho	302	4,397	3.3	6.9
95	...	Central Bancshares of the South Inc., Birmingham	301	4,818	4.1	6.2
96	97	Liberty National Bancorp. Inc., Louisville, Ky.	301	3,514	(1.9)	8.6
97	92	Summit Bancorp., N.J.	293	3,732	(10.6)	7.8
98	98	United Banks of Colorado Inc., Denver	292	6,267	(2.8)	4.7
99	...	Old National Bancorp., Evansville, Ind.	286	2,221	(2.1)	12.9
100	96	Valley National Bancorp., Clifton, N.J.	285	1,857	(8.2)	15.4
TOTALS FOR THE TOP 100 ¹ (\$ Billion)			127.8	2,247.2	(1.1)	5.69

Data source: SNL Securities, Charlottesville, Va., from its data base of 400 publicly traded banking companies. M.Cap. is market capitalization. It is computed by multiplying the number of common shares outstanding at the bank on June 29, 1990, by the closing market price of the bank's stock on

June 29, the last trading day of the quarter. Assets: the total assets of the banking company on June 30, 1990. M.Cap. vs 1Q: Percentage change in market capitalization from March 31 to June 30. Negative changes are shown in parenthesis. M.Cap./Assets: market capitalization on June 30 ex-

pressed as a percentage of total assets on June 30. (*)—Percent changes computed by comparing totals for the Top 50 and Top 100 on June 30 with the Top 50 and Top 100 on March 31, respectively. Copyright American Banker, 1990.

STOCKS

BNE Rebounds on U.S. Denial

Continued from page 1

en by 62.5 cents, to \$1, on Thursday. But following the statements from regulators, the stock opened at \$2 on Friday.

Analysts said short selling contributed to the heavy volume.

Little Confidence Detected

"There's still very little long-term confidence," said Charles Cranmer, an analyst for Shearson, Lehman, Hutton in New York.

"Thursday was an overreaction, and the company is trading Friday at a more normal level," said Gerard Cassidy, an analyst for Tucker, Anthony & R.L. Day in Portland, Maine. "But it does not suggest that BNE is on the road to recovery."

The banking company has experienced heavy losses in recent quarters because of problems in its real estate portfolio.

On Friday, the Office of the Comptroller of the Currency again stated, as it had on Thursday, that there would be no closing over the Labor Day weekend of Bank of New England, the company's lead national bank.

Comment Not Unprecedented

While it is unusual for the Comptroller to comment on whether or not it would seize a troubled bank, it is not a unprecedented, according to Leonora Cross, chief spokeswoman for the agency.

"We've done this in other situations," she said. "It happened often with the banks in Texas" several years ago when a number of large institutions there were near collapse. "We are supervising the Bank of New England very closely under a cease-and-desist order. The bank is attempting to get additional capital," said Ms. Cross.

But the federal banking agency said it was not familiar with, and was not a planned participant in, the scheduled meeting today requested by Bank of New England Chairman Lawrence Fish with Federal Deposit Insurance Corp. Chairman L. William Seidman.

Flexibility May Be Sought

Mr. Seidman was on Cape Cod Friday and could not be reached for comment. Regulatory sources said they expected Mr. Fish to request greater flexibility in rules governing the sale of some of the holding company's assets.

In a statement Thursday night, Mr. Fish called the comments by the congressional candidate the "height of irresponsibility" and threatened possible legal action. The candidate, Ted Dimauro, issued an apology, saying his statement should have been labeled as "speculation." Mr. Dimauro's campaign manager subsequently resigned.

Bank of New England's actions in bank funding markets Friday suggest its liquidity is adequate. Sources said Bank of New England's subsidiary, Connecticut Bank and Trust, sold more than \$500 million in Fed funds Friday morning.

Arthur H. Meehan, Bank of New England's treasurer, said in an interview that he is confident the bank has sufficient liquidity. "Funds are pouring in here," he said. "My problem is, as the balance sheet grows it strains the equity ratio," reducing the banks' regulatory capital ratio.

Mr. Meehan said the bank had repaid all its borrowings from the Federal Reserve Bank in June. "We don't owe the Federal Reserve Bank a penny, and we haven't owed them a penny since June 13," he said. He added that the bank was a seller of \$1.6 billion in fed funds Thursday night.

Bank of New England has been virtually unable to buy fed funds in the open market since its troubles surfaced earlier this year, traders said. But Mr. Meehan said the bank has purchased some fed funds from its correspondent network and from "large, friendly banks."

Meanwhile, analysts said that efforts by Lazard Freres & Co. and Goldman Sachs & Co. to privately place \$150 million in equity for the company will not readily yield any immediate buyers.

Investment bankers and analysts pondered how the bank, given its financial condition and the economy in New England, could attract investors.

Most agreed that convincing an equity investor to take a big stake alone would be difficult. Some said an equity investment in conjunction with government assistance was more likely and plausible.

Marshall Davidson, a managing director at Kidder Peabody & Co., said he suspected that without government assistance, the hole an equity holder would have to fill would be too large.

Kelley Holland and Fred Vogelstein, both in New York, contributed to this article.

DEALS

RTC Moves to Seize Luxury Project in N.J.

By STEPHEN KLEEGER

The Resolution Trust Corp. has initiated foreclosure proceedings against Port Liberte in Jersey City, one of the most ambitious luxury housing projects ever begun in the New York metropolitan region.

The \$158 million in loans outstanding on the property have been in default since March 1989, but the RTC began proceedings only last month.

The waterfront project, which ground to a halt last summer with only 189 of 1,690 planned units occupied, is the most notorious of the troubled real estate projects financed by City Federal Savings Bank, a \$10 billion-asset thrift in Bedminster, N.J., that was seized late last year.

FIRREA Rule Blamed

Representatives of the developer, Paul W. Bucha, blamed the work stoppage at the time on stricter rules limiting an institution's loans to one borrower that took effect Aug. 9, 1989, with passage of the Financial Institutions Reform, Recovery, and Enforcement Act.

But City Federal explained its decision to stop funding the project by citing a July 1989 appraisal that concluded the project was not feasible.

City Federal, now called City Savings Bank, was the lead lender among 15 institutions that began sinking money into the project in 1984. The group, now numbering 13 institutions due to the failure of two members, holds a first lien of \$90 million on the property. Proceeds of any sale would be distributed on a pro rata basis to those lenders.

City Federal and National Westminster Bank of New Jersey sank another \$68 million into the project, but no one interviewed for this article believes the first \$90 million can be recovered, much less any part

of the \$68 million that is subordinate to the first loan.

Stock Market Crash Hurt

The project ran into delays and cost overruns related to the construction of canals and the unusual design of some units. Observers also said the condo market was hurt by the 1987 stock market crash, although units continued to sell for as much as \$750,000 last year.

City Federal placed the property in "in substance foreclosure," an accounting category that required it to write down \$52.7 million of its \$69.6 mil-

Delays and cost

overruns hurt Port

Liberte.

lion in loans to Port Liberte in the third quarter of 1989. The savings bank lost \$223.7 million in that quarter.

Mr. Bucha said an additional \$20 million to \$30 million was needed to complete and sell the entire 363-unit first phase of the project and put the loan back on a performing basis.

But the bank's appraisal estimated the existing part of the project was worth only \$88 million, or about \$70 million less than lenders had already committed. A more recent appraisal, for the RTC, valued Port Liberte at only about \$70 million.

Some Welcome the Foreclosure

Some lenders welcomed the RTC foreclosure on Port Liberte because it will "get it closed and to a conclusion," said Lawrence W. Seidman, chairman of Crestmont Savings and Loan Association, Edison, N.J. He said Crestmont set aside reserves against its portion of the loan last year.

But Joseph M. Ochman,

chairman and president of Interboro Savings and Loan Association, was dissatisfied by talk that the project may now recover only \$20 million to \$30 million for the lenders.

"This money didn't just go into a black hole," Mr. Ochman said, adding that he plans to request a federal investigation of the project and its handling.

Inter-boro has placed its part of the loan in the "doubtful" category, meaning it took reserves for half of its roughly \$5 million share, Mr. Ochman said.

A Disgruntled Lender

"This is 20 months into default, and they just recently instituted proceedings," Mr. Ochman said. He complained that the possibility of multimillion-dollar environmental liability exposure is now being raised to discourage seizure of the property and pave the way for a quick sale at a low price.

But another source, who put the price now being considered at about \$45 million, said an environmental audit of the site must be completed before any sale occurs. Discovery of chromium contamination in the area, and past industrial uses of the property, have heightened concerns about environmental liability. Under federal environmental law, such liability can sometimes pass to a lender who takes control of a property through foreclosure.

Marianne Bell, a spokeswoman for the developer, said, "With the threat of foreclosure, we have a limited amount of time." But she added, "We are working with investors and the RTC to refinance the project."

Ms. Bell said Port Liberte has permits to build 1,690 units, but she said new investors would probably want to build closer to 2,250 units, the maximum allowed under zoning rules. □

CAPITAL

Top Banks' Market Capitalization Held Steady Before Recent Plunge

Continued from page 18

big declines in market capitalization. Many banks in the Southeast have been plagued by increases in nonperforming assets and chargeoffs this year, and bond rating agencies downgraded all the major banks in the region during the second quarter.

Southeast Banking Corp., Miami, recorded the biggest decline in market capitalization of any of the 100 largest banks, losing a third of its market value. The bank was downgraded in the second quarter.

"In our opinion, a convergence of negative forces was occurring, and we question whether the company has the financial flexibility to address its problems," said Gerard J. O'Meara, Jr., an analyst at Robinson-Humphrey Co.

Dominion Bankshares also

lost 23.8% of its market capitalization. But Mr. O'Meara said Dominion's prospects are brighter than Southeast's. The bank's stock price was battered in the second quarter, when Dominion reported the results of its examination by the Office of the Comptroller of the Currency. But its second-quarter results indicate Dominion is back on track, he said.

First American Slides

First American Corp. continued its slide, losing 24.5% of its market value. The Nashville, Tenn.-based bank has had problems with its real estate portfolio since 1988, losing a president and chief executive officer in the process. Most recently, the bank eliminated the dividend on its common stock in the wake of an OCC examination. □

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